

HOW PEOPLE MAKE THEIR COOPERATIVE
GO & GROW*

by

Charles H. Ingraham
Extension Economist
Business Management
The Ohio State University

Cooperatives are many things to many people. In 1965 a definition was written that has been accepted by the U.S.D.A.:

"A cooperative is a voluntary contractual organization of persons having a mutual ownership interest in providing themselves a needed service(s) on a nonprofit basis. It is usually organized as a legal entity to accomplish an economic objective through joint participation of its members. In a cooperative the investment and operational risks, benefits gained, or losses incurred are shared equitably by its members in proportion to their use of the cooperative's services. A cooperative is democratically controlled by its members on the basis of their status as member-users and not as investors in the capital structure of the cooperative."1/

From this definition, it is apparent that people are the important factor.

Cooperatives are unique - they are people working together to obtain those goals they could not achieve individually.

For a cooperative to "go and grow" members must: need it, want it, understand it, use it, finance it, and work at it.

Members do not automatically realize the need they have for their cooperative and thus do not have a want. These two requirements for a cooperative to go and grow are dependent upon the members understanding of the cooperative.

Some uninformed members of cooperatives will say, "Why do I need a cooperative - I can buy for just as cheap down the street," or "I can sell for a cent a bushel more down the street." These concerns are not new. They have been around ever since your cooperative was organized. Members must understand their cooperative and realize that "it's the net that counts."

1/ Cooperative Criteria, Service Report 71, Farmers Cooperative Service, February, 1965

*Presented at the Graduate and Collegiate Seminar, American Institute of Cooperation, Tulane/Loyola Universities, New Orleans, Louisiana, August 7, 1973

A member of a farmer cooperative must do business with his cooperative if he expects it to be successful. Far too often producers have used their cooperative as a dumping ground for their low quality or excess products. As a result, the cooperative has not been as successful as it could have been. Even though it may continue to operate, it cannot achieve its potential if members do not use it as fully as possible.

A member must participate in the representative government of his cooperative. Members deserve the directors they elect, and the directors deserve the support of the membership.

A member of a farmer cooperative must finance his cooperative just as efficiently as he finances the production side of his agricultural endeavor.

A member must encourage and challenge his directors and management to look into the future and chart a course that will enable the cooperative to continually assist him in increasing his net income.

The history of our cooperatives are filled with many accounts of progress and change that have played an important part in increasing the net income of farmers while making food and fiber in the United States the greatest bargain in the world. There are co-op members who say, "Oh, to have lived 50 years ago and to have been a part of those great cooperative undertakings." If these people cannot see the many opportunities for cooperative activity today, they would not have seen those of fifty years ago.

Cooperatives are people in action.

Some uninformed cooperative leaders are saying that there isn't much difference any more between a cooperative and other types of business. They are wrong. There are still three basic principles that cooperatives follow that other firms do not: (1) Democratic control, (2) Operations at cost and (3) Limited return on equity capital.

Some people try to draw hard and fast lines between the little local cooperative that still fits the pattern of the last century and those growing effective cooperatives which have updated themselves to meet the needs of today's specialized farmers and today's competition.

This is wrong! Cooperatives cannot operate in yesterday's world or yesterday's economy. They must grow and adjust with the times if they are to serve their members.

Still a third approach is to say that almost any enterprise that chooses to call itself a cooperative should be so classified. This is an even more common and serious error.

There is a basic characteristic which if present makes a business cooperative in nature; whereas without this characteristic no amount of "do gooderism" can put a cooperative soul into a profit seeking body.

The cooperative characteristic is to be found in the purpose of the enterprise and in the pattern of ownership which must necessarily go along with that purpose.

The different purpose and the different pattern of ownership and control distinguish cooperatives from other forms of economic organizations.

First a cooperative enterprise is one whose purpose it is to provide its customers and users of its service with goods and services which they need at the lowest economically practical net cost and in the form and quality those customers desire. The only way to be sure this is done is for the customers or users of the service to be also the owners of the business and provide the necessary equity capital, direction and control.

Some so-called cooperative leaders are striving so hard to become "just like all other types of businesses" that they have failed to recognize the unique characteristics of a cooperative business organization and the basic principles that distinguish the co-op from other types of business associations. As a result of this failure they lose the advantages of the unique resource inherent in their cooperative. People are a unique resource of a cooperative.

Like any resource, the people resource must be effectively handled and productively employed if it is to make a worthwhile contribution. Misused or mismanaged this people resource can be a detriment and bring disaster to the cooperative firm. This people resource can be classified into four groups:

1. Individuals as Individual Resources - We can consider the individual co-op member as a single complex organism with his need system working in a variety of ways. During times of crisis, want, or stress, individuals become committed and will totally commit themselves to the cause. This is the type of commitment many had to their cooperative when it was organized.

It was not an easy task to convince farmers in the depression era of the 1930's that they needed electricity. It required devoted leadership, with tremendous courage to motivate the individual to want electricity enough to commit himself to the cause of organizing and financing a REC.

This individual people resource can, if not properly employed, work against the cooperative. The individual people resource must be guided toward its commitment. Many times the strongest leadership is found in those who have been neglected as was the case 40 years ago when your co-op was formed. Cooperative leaders must not make the same mistake the professional directors of investor oriented firms made 40 years ago.

We must make certain that each individual member of the cooperative understands how his cooperative is filling his individual need for service, comfort, convenience, etc., and commit his efforts toward the objective of the cooperative.

People who own the cooperative must be informed about the cooperative - what it is, how it is functioning, what its problems are and how it is meeting them. It is their business, they must be given the facts - both good and bad.

2. Face to Face Groups as Human Resources - Cooperatives must take advantage of opportunities that their members have to associate with one another in various formal and informal group activities. Local co-op members have many common group activities such as church, school, community and recreation. These face to face groups provide the opportunity for your co-op members to exchange points of view on many issues. The owners must have the facts about their co-op and its position on current issues to assure that when they discuss their cooperative they have the facts and an understanding of the cooperative's objective. Informed co-op members must provide leadership for as many group efforts as possible for group action to be a plus factor for their cooperative. Some members may be inclined not to get involved (the reason is usually that they do not have or understand the facts). This "copping out" co-op members cannot afford.

Too often as cooperatives grow, as they must to serve their members in our competitive economy, the manager becomes so involved with the management functions that he cannot visit with members or groups of members. A member relationship director is employed, but his position is often so far down the organizational ladder that member concerns cannot effectively reach the manager or he is so far removed from the board that he really doesn't know what is going on. At times we might hear members say, "Our co-op manager, oh yes, he always gives us a bunch of data at the annual meeting." Cooperative managers must be people oriented. This is a different requirement than that for the managers of an investment oriented firm.

Directors and management of a cooperative are in unique positions in that the customers are for the most part the owners. Directors and management of cooperatives must be people oriented.

Members must have the facts about their cooperative or false and misleading information may generate from face to face groups and be accepted as facts by members and the public.

The member relations director for a cooperative is in a difficult situation. Much has been written for PR directors of general corporations but little for member relations directors of cooperatives. There are some who even believe that cooperatives have the same social obligation to society as investor oriented firms. A new member relations director, who's superior employs a quantitative measure for evaluation, may launch out on a program of selling more feed and the member and his concerns as to why he should help finance the cooperative may never be answered.

Expenditures that encourage and prepare members to work together to move their cooperative toward its objective are the soundest investment cooperatives can make!

The history of cooperatives is filled with evidence to indicate the importance of member involvement. Member involvement has been a foundation for all successful cooperative firms. Research supports cooperative members involvement as group dynamics research has provided numerous studies of face to face group situations where member involvement is an important factor in goal implementation and attainment by group members. The organization and early success of

each co-op represented here is a prime example. Such a concept fits our cooperative democratic values that place the idea of self-determination at the heart of our cooperative principles.

But what about the members--what are they saying to each other in face to face situations? What conclusions are they collectively reaching about the cooperative and its programs in their informal or formal group discussions. Members must discharge some of their responsibilities to their co-op and themselves by speaking out in face to face situations to tell others about their co-op. To do this they must understand the cooperative and have the facts about it.

Many cooperatives have based their hope for success on the premise that if the membership really knew about the cooperative's activities or programs that this would result in supporting action by the membership. The assumption that knowledge will bring change has caused many a change agent to learn the deeper meaning of frustration. People must have the opportunity to become involved.

Cooperative directors and management are at times reluctant to consult members because the feedback they have received in the past is considered criticism of their performance and thus become defensive. Directors and employees must develop their listening skills. In Ohio our current co-op young couple and key couple involvement programs have taught co-op directors and leaders some valuable lessons. First these young people who are members of the cooperative can tell us better than outsiders what they want their cooperative to do; second, that they want to be involved in their cooperative as couples; third, that the self-appointed advocate for the young co-op member may be telling it like it is for him, but since in some cases he is not a member of the cooperative and may not really understand cooperatives or their members and is peddling the wrong information. Young couples are willing to work with you if you will encourage them and invite them. Fourth, the young couples can get things accomplished. A question always asked by some young couples is, "How can I join the cooperative?"

Member involvement depends on meaningful rewards. Rewards vary with individuals. An individual may be concerned with self expression, recognition, the need to feel useful and important, the desire for new knowledge, the need to meet other people, or a constructive use of leisure time, etc. You must discover the appropriate reward for each member.

Involved members must see the relationship of the job they do, however small, to the total effort.

Involved cooperative members must feel the importance of their contribution. Their efforts must result in action. Their efforts must in some way improve the effectiveness of their cooperative in filling members' needs.

The initial involvement of a member must be simple enough to insure some success. A little success goes a long way in motivating involvement. Frustration at the outset of member involvement is death to the well meaning efforts.

Continued member involvement demands new and timely challenges. Co-op members will be unwilling to do the same job over and over. Member involvement may stop when there is stagnation. Members must be kept completely informed about developments and programs of the cooperative. The members become involved and work in their cooperative and will be sincerely interested in what happens to it.

3. The Cooperative as a Human Resource - A cooperative is a complex social system that has opportunity for individual member and groups involvement with varying degrees of power and influence.

Directors can use the cooperatives as a vehicle to employ their leadership skills as they handle their director responsibilities directly or as a board. They must be prepared to present facts, deliberate, make decisions as a unit, not as individuals. Directors must understand their role as cooperative directors which is, as you already know, very different from that of the general corporation directors. They must delegate duties and responsibilities that belong to a cooperative manager to a competent cooperative manager.

Cooperative directors must inform members and the public about the cooperative.

Cooperative employees must be sufficiently informed to tell customers about their cooperative. A co-op employee training program on cooperatives is a must for a successful cooperative. Cooperatives must provide this training since educational institutions have practically no educational programs about cooperatives. Employees that understand the cooperative, its objective, and program can be an important factor in co-op member involvement.

4. Federation of Cooperatives as a Human Resource - Inter-organization, interstate, inter-community, and national cooperatives are human resources that can increase effectiveness of the co-op human resource at the local level. The AIC and its educational programs such as this is an example. Your NCFC and its legislative program is another example of effective use of the cooperative human resource.

How is your cooperative making use of this resource? Do you know and exchange ideas with employees of other cooperatives who are in a position similar to yours?

Member Education

Many cooperative statutes have provisions for use of excess receipts for member educational endeavors. Historically, education has always been a primary concern of cooperatives. Such provisions are not mandatory but are permissive and indicate concern of early cooperative leaders and legislators

for informing members about how cooperatives are unique and how members can use them to increase their net income. Sometimes cooperatives have appropriated such funds for general education purposes; for example, the hiring of teachers and the building up of libraries.

Success in cooperative educational programs results in increased membership and patronage for the cooperative which, in turn, results in increased margins for the cooperative and ends up as higher net income for the members.

A person becoming a member of a cooperative is deemed to know the provisions of the articles, bylaws and other basic instruments under which the association operates. All conditions will vary state by state in accordance with state statutes. Let me remind you of the line in the definition of a cooperative - that makes it clear that a cooperative membership is a result of a contractual undertaking on the part of the member. A contract requires a meeting of the minds and affirmative action by each of the patrons there to. Sometimes cooperatives have attempted to make persons members by including in their bylaws provisions that those who consign to or otherwise transact business with them thereby become members as a result. Some persons do not know that they are members of cooperatives. I recently learned of cooperatives in Ohio that have discontinued collecting a membership fee and make no reference to membership in the contract the "member" signs - the excuse, "their competitor doesn't have a membership fee." These provisions do not automatically operate to make non-member patrons members. Such provisions in the bylaws may be construed as offers of membership, but there must be informed action on the part of patrons before membership results as a matter of law.

Representative Control

The method of government of a corporation is in its nature representative, and is, in some respects, analogous to representative democracy.

The governing body of all types of corporations is the board of directors. Members of the board of directors are elected by shareholders and these boards in turn elect the officers of the corporation.

Boards of directors for all types of corporations are the policy determining bodies of the corporation, and also the bodies which, either generally or specifically, authorize business transactions.

Boards of directors of any corporation are, therefore, analogous to the Congress, the state legislature or city council.

Theoretically control of the investor oriented business enterprise is in the stockholders on a capital ownership basis. However, the various devices of holding companies, voting trusts, etc. permit economic domination over the business by a relatively small group.

The democratic control feature of a cooperative commonly referred to as one member one vote is a corporate device being used in its original form since

historically all members of a corporation had only one vote. Historical accounts of cooperatives report that in the late 1800's some farmers gave up control of their cooperatives and lost their investment in their cooperative when they abandoned the cooperative principle of democratic control. It is reported that farmers were led to believe that in order to attract investments and large farmers they needed to provide for control of the cooperative on the basis of investment. The new firm operated for the benefit of its controlling investors - not its patrons. Most state cooperative statutes passed on the 1920's were very specific in protecting the democratic control features of agricultural cooperatives as a result of these experiences.

Democratic Control of the Cooperative Must Work If It Is To Go & Grow

The democratic control feature of a cooperative is well recognized. Some writers have used the term democracy to mean a society in which the people who compose it are their own governors, much as the policyholders of a mutual insurance company are their own insurers or the members of a marketing cooperative collectively provide their own marketing facilities.

The membership of a cooperative has the responsibility to periodically check to make certain that their cooperative is still democratically controlled. The test is a simple one. Do the people (member-stockholders) rule?

Those members who lose control of their cooperative do so because they abdicate their responsibility to participate in the democratic representative process that governs and controls their cooperative.

The democratic control principle of a cooperative simply means that each person is entitled to only one or a minute number of votes. In a cooperative, people, not dollars, vote. In a cooperative the per capita method of voting is used. The democratic principle of the cooperative exists because of the positive mandate of the cooperative statute which has been used for the purpose of the incorporation.

If a statute contemplates one vote for each share of common stock, pure democracy and control can exist by limiting ownership of each member to only one share or by requiring all members to own an equal amount of voting shares of stock.

It does not follow that the absence of absolute equality in voting prevents an organization from being a cooperative. There are cooperatives in which the members have democratically decided and so set forth in their corporate papers that voting privileges in their cooperative be based upon patronage. Thus some cooperatives not only provide for the distribution of savings on a patronage basis but also for voting and control on a patronage basis.

Thus the democratic control principle is employed in a particular cooperative as the owners democratically decide within the limits of the statute and their corporate papers. It may be one member one vote, a limited maximum number of votes depending upon the number of shares owned or a number of votes based on patronage. Such variations in equality of voting are but one factor to be

considered in determining the cooperative character of an organization. The others are distribution of savings and limited return on equity capital. Certainly minor inequalities in control if sanctioned by the democratic action of a majority of the membership and permitted by statute does not prevent an organization from being a cooperative.

Democratic Representative Control

When a member of a cooperative is elected by his fellow members to a position on the board of directors, he faces a two-fold challenge: (1) to represent all stockholders or members of the business, and (2) he is vested by law with the responsibility to reasonably conduct the affairs of the business for the welfare of the cooperative. As a board member, he has legal, general and moral responsibilities in representing stockholders or members of the cooperative.

It is important that cooperative directors understand that their position as a director of their cooperative differs from that of a director for other types of business. Directors of non-cooperatives are usually the principle owners of the firm, and they may serve not only as a director of their firm, but also as an executive or manager. The director of a cooperative is elected democratically without regard to his investment in the cooperative. In fact the total investment of the president of a cooperative usually needs to be only one membership fee or one share of stock. The cooperatives ownership is not controlled by the board of directors as in the general corporation.

People, not dollars, elect cooperative directors.

Members of the cooperative elect a director to a position of trusteeship. In effect, they legally place their financial interests in the cooperative in the hands of the director they elect.

Cooperative Directors Represent People

Cooperative directors do not make decisions for themselves but for the total membership of the cooperative. As a director of a cooperative it is his duty to vote for the best interest of the total membership, not for his own interest. In this respect his power to vote as a director is entirely different from that of a general corporation board member who may quite properly vote to serve his own interest as a major investor or an agent for a few major investors.

Co-op Financial Control

The members of a cooperative have important financial responsibilities. They should study and cause to be audited all financial reports.

Members, if they are going to control their cooperative, must provide a reasonable amount of the necessary capital.

Co-op Directors Inform Members

The director of a cooperative has the responsibility of keeping the co-op

membership informed as to the activities of the cooperative. This responsibility is shared, however, with members who have the responsibility of seeking out this information by reading reports and participating in meetings. The cooperative membership are also responsible for the prudent use of information they receive about their cooperative. A cooperative should give periodic reports of its affairs, activities and future plans to all members.

Co-op Directors are Members

The director of a cooperative must recognize that, except when the board is in formal meeting, his authority is equal only to the rights and authority of any individual member of the cooperative. This applies to each director of a cooperative regardless of the position he may hold on the board. Directors of investor oriented firms by virtue of their ownership control of voting stock are the major owners, major decisions makers, major controllers of the firm and personally may hold the votes necessary to back up his position.

As individuals, the members of the board of directors of a cooperative have no authority to act for, or bind the corporation, unless they are duly elected or appointed to do so in a legal meeting of the board of directors.

Some statutes provide for and some cooperatives have outside directors who may not meet the requirements of membership, such as being a producer of agricultural products. Some positions are usually limited in number and designated to represent the general public.

Members of Cooperatives Deserve The Directors They Elect

Members of a cooperative deserve the directors they elect to represent them and their interest in the cooperative and once elected, cooperative directors deserve the support of the membership that requested that they take time from their farming operation to manage the affairs of their cooperative.

A distinctive feature of the cooperative is the closer relationship between the business entity and its patron than that characterizing other forms of business. This closer relationship between the cooperative and the patrons is governed by the provisions of the statute, articles of incorporation, bylaws and membership contract. The relationship may be one of agency, trustee, or otherwise fiduciary in character depending upon the terms set forth in the corporate papers or statute. Since there can be as many variations in the terms it is difficult to generalize. To determine the exact nature of the relationship one must examine separately the rights and obligations set forth in each specific case.

Informed and involved people make their cooperative "go and grow" because they recognize a need for their cooperative, they understand it enough to want it, they will finance it as a part of their farming operation and use it and work to make it "grow and go".